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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 003667

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E.O. 12958: DECL: 12/05/2016  
TAGS: [ECON](#) [EFIN](#) [VE](#)  
SUBJECT: MEETING WITH VENEZUELAN DEVELOPMENT BANK PRESIDENT  
BEHRENS

REF: A. CARACAS 2622

[1](#)B. CARACAS 3411

Classified By: Economic Counselor Andrew N. Bowen for reasons 1.5(b) and (d).

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SUMMARY  
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[1](#)1. (SBU) At a November 29 meeting with EconCouns, Vice Minister of Finance and President of the Bank for Economic and Social Development (BANDES) Edgar Behrens outlined BANDES's operations in Venezuela and abroad and detailed future plans to fund the development of Venezuela through promoting cooperatives, worker participation and social production companies. BANDES and its sister organization, the Bank for the Regional Support of the Andes (BANFOANDES) are also trying to shake up the Venezuelan financial sector by forcing down interest rates and incentivizing microcredit and consumer lending. BANDES is also exporting cheap credit abroad with a branch office in Uruguay and plans to open future branches in the Carribbean, Central and South America and West Africa. With assets of nearly USD 10 billion and annual lending of over USD 760 million, BANDES has the assets and wherewithal to affect traditional development and consumer banking in Venezuela and, perhaps, abroad.

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TAKING A BITE OUT OF UNDERDEVELOPMENT  
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[1](#)2. (C) On November 29, 2006 EconCouns, EconOff, and EconSpecialist met with the Vice Minister of Finance for Endogenous Development, and President of the government-owned Bank of Economic and Social Development (BANDES), Edgar Behrens. The meeting also included a BANDES vice president, BANDES director and a representative from the Ministry of Foreign Relations (MRE). Behrens said he viewed BANDES as a vehicle to promote the development of Venezuelan agriculture and industry while noting that Venezuela relied too heavily on primary product exports and consumer imports. Through targeted lending, BANDES intends to correct these structural deficiencies by promoting development in these areas. He added that in 2005, BANDES focused on agriculture, directing approximately USD 650 million (85 percent of its portfolio that year) to this sector, while in 2006 they have focused on

industry and expect to direct a similar percentage of total loans to that sector. Other focuses include tourism as well as sectors that promote these three areas (including infrastructure and research and development).

¶3. (SBU) According to Behrens, BANDES is primarily a second-tier bank that lends money to other banks which then lend to businesses and individuals. BANDES works with the universal government-owned bank, the Bank for the Regional Support of the Andes (BANFOANDES), as well as other government-owned development banks that target agriculture, industry, female-owned enterprises and micro-enterprises. Through preferential terms (read: subsidized lending at rates below inflation) from BANDES, these banks can make loans at significantly below market rates. For example, BANFOANDES lends money to cooperatives at 4 percent, to companies with worker representation at rates ranging from 5-7 percent (depending on the percentage of worker representation), and to enterprises of social production (EPS), which devote a portion of their profits to social activities, at 8 percent. The average rate charged by Venezuela's major private banks is currently 15.3 percent.

¶4. (SBU) Behrens who was previously the President of BANFOANDES also described that institutions rapid expansion and central role in expanding access to banking throughout Venezuela. There are currently 161 branches and the BRV plans to open 400-450 in the next few years. BANFOANDES, according to Behrens plans to open branches in areas currently not served by commercial banks and that, as a government-owned bank, they could allow certain branches to operate at a loss in order to ensure the under-served public had access to banking. He added, proudly, that they are also introducing new products, such as a guarantee to reimburse money lost to stolen debit and credit cards within 48 hours. Behrens noted that commercial banks (which compete fiercely

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for credit customers) do not offer this service.

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GROWING PAINS  
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¶5. (C) Behrens noted that while BANDES has existed in its present form for 5 years, very little was accomplished in 2003 and 2004 due to the economic and civil disruptions in Venezuela. BANDES currently has approximately USD 10 billion in assets, mostly invested in trust funds in Venezuela. In 2005, 29 percent of BANDES loans were non-performing (or in arrears). Behrens intends to lower this number to between 15 and 20 percent by the end of 2006 and to continue to improve the portfolio in 2007. In addition, BANDES is capitalizing the other Venezuelan development banks so that they can lend their own money, rather than BANDES's. Behrens astutely observed that banks tend to be much more diligent when lending their own money (in the case of one Venezuelan development bank/fund 70 percent of its loans were non-performing when loaning BANDES money, versus 14 percent when lending its own money).

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MORE THAN THE AVERAGE BANK  
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¶6. (SBU) Behrens added that BANDES was funding the National Institute for Small and Medium Industry (INAPYMI) and the Fund for the Development and Financing of Agriculture (FONDAFA) and expected to increase their sizes from 110 to 3,500 employees and 2,000 to 7,000 employees, respectively. He opined that these institutions should move away from making loans and grants and focus solely on providing training and assistance to industrial and agricultural enterprises. In 2006, BANDES will spend USD 160 million on technical assistance.

17. (C) The significant overlap in the public banking sector concerned Behrens and he hoped to consolidate the public banks (BANDES, BANFOANDES, Bank of the Woman, Industrial Bank, and possible the Bank of the Treasury) into one behemoth that would hold government deposits and do development work. He observed that there was currently USD 9.3 billion in government money in the private banking sector that could be transferred to public sector banks. According to him, this represented 73 percent of all government deposits. (Note: As reported in reftels, many banks now rely on these government funds for solvency and any large-scale transfer could precipitate a banking crisis. Behrens seemed to understand the delicate nature of the banking sector and underlined that if such a transfer took place, it would be "poco a poco," or little by little. End Note.)

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BECOMING A WORLD BANK?  
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18. (C) Behrens said that BANDES currently had a branch in Uruguay and there are plans to open branches in Nicaragua, Cuba, Bolivia, Paraguay, Mali as well as in other countries. BANDES also plans to serve the banking needs of all PetroCaribe agreements. BANDES' purchase of a failing Uruguayan bank in 2005, had, according to Behrens, a significant effect on the Uruguayan banking sector. BANDES's original investment of USD 30 million has grown and the bank now has USD 80 million in assets. By lowering interest rates and actively going after customers, Behrens said that the 5 primary banks in Uruguay were for the first time competing for customers and increasing their services and advertising budgets. He added that BANDES pioneered lending money to small and medium enterprises and that previously entrepreneurs had to get personal loans to fund their businesses. While it is still a learning process and approximately 30 percent of the bank's loan portfolio is non-performing, Behrens considers the Uruguay venture to be a success. (Comment: We cannot judge BANDES' impact on the Uruguayan financial sector, beyond Behrens's assertions. End Comment.)

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COMMENT  
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19. (C) Econoffs were pleasantly surprised by the cordial nature of the meeting and the openness of Behrens and his team -- agreeing to meet four days prior to national elections. Behrens volunteered detailed and sensitive information about his bank's operations and seemed genuinely interested in convincing his American guests of the righteousness of their cause. It seems likely that BANDES and its sister institutions' roles in the shaping of the Venezuelan economy will continue to grow as they expand their branch network and BANDES begins to ramp up spending. BANDES role as an instrument of state diplomacy also shows no signs of abating with the reported recent purchase of an Argentine milk processing facility. Separately, it was also interesting that Behrens had previously declined the meeting until he received the "green light" from the MRE.

110. (C) BIODATA NOTE: Behrens was a Captain in the Army and a participant in the 1992 coup. He has a reputation for being clean and honest (rare in the upper-echelons of the BRV) and also for having Chavez's confidence. BANDES and BANFOANDES literature is replete with Biblical citations and references to God. The BANDES motto, which is on all of its paperwork, is "The Lord is Love and Prosperity." At the end of the meeting, Behrens distributed copies of a Protestant, Evangelical Bible to the meeting attendees, as well a Spanish reprint of American Christian-author Dr. Harold Finch's "The Three Keys that Open the Door to Great Success."

